Distr.
GENERAL

GC.6/5/Add.2
IDB.14/16
8 June 1995

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

GENERAL CONFERENCE

Sixth session
Vienna, 4-8 December 1995

Industrial Development Board

Fourteenth session
Vienna, 26-30 June 1995
Item 12 of the provisional agenda

INDUSTRIAL INVESTMENT PROMOTION

Report by the Director-General

Summary

Reports on industrial investment promotion activities carried out by UNIDO through a variety of instruments including, *inter alia*, Investment Promotion Service offices, cooperation with financial institutions and a network of information and data on the subject.

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V.95 54639 (E) (b:\1995\pmo.8)

Distr.: 13 June 1995

Introduction

1. The General Conference in its resolution GC.5/Res.7 on industrial investment promotion requested the Director-General to take a number of actions aimed at strengthening cooperation in the field of industrial investment promotion in developing countries and to report on their implementation to the General Conference at its sixth session through the Industrial Development Board.

2. A first report on the subject (GC.6/5-IDB.13/12, chap. VI and Add.1) was submitted through the Board at its thirteenth session. The Board, in its decision IDB.13/Dec.8 addressed further requests to the Director-General including a report on their implementation to its fourteenth session. In the information provided below reference to the requests contained in decision IDB.13/Dec.8 is made under each heading.

I. INVESTMENT PROMOTION SERVICE OFFICES

(IDB.13/Dec.8, para. (f)(i))

3. The expansion of the Investment Promotion Service (IPS) office network into developing countries and countries with economies in transition is a major objective of the UNIDO Investment Service. The establishment of IPS offices in developing countries will complement the activities of traditional IPS offices in developed countries and will further facilitate the flow of investment from developed to developing countries.

4. In April 1995, the IPS office at Istanbul, Turkey, started operations and later in the year, two new IPS offices are expected to open in Portugal and Bahrain. Negotiations for the establishment of IPS offices are under way with the following countries: Egypt, Hungary, India, Israel, Tunisia, Ukraine and the United Kingdom of Great Britain and Northern Ireland. The IPS office at Seoul, Republic of Korea, was extended for a further year and in May 1995 the Government was presented with a comprehensive plan to strengthen the office in coming years. Also during 1995, discussions are being held with the relevant government authorities concerning the future functioning of and arrangements for the UNIDO Centres for International Industrial Cooperation at Beijing and Moscow.

5. Document GC.6/5/Add.1-IDB.13/12/Add.1 (para. 6) reported that many developing country host Governments have requested UNIDO to apply, for Professional-level staff of IPS offices in their countries, the National Professional Officer salary scales established by the International Civil Service Commission (ICSC) for each duty station in developing countries. This situation was reflected in decision IDB.13/Dec.8, in which the need was recognized to make, *inter alia*, arrangements with regard to various salary scales, and commitments related to financial and in-kind contributions, which should be subject to negotiations between the Government of the host country and UNIDO. In this connection, in certain cases as indicated in document GC.6/5/Add.1-IDB.13/12/Add.1, the National Professional Officers Salary Scales will be applied during 1995 to those Heads and other professional staff of IPSO offices who are appointed as locally recruited National Professional Officers in selected developing countries. This option for personnel arrangements for IPS offices in developing countries will require a modification of the provisions for personnel in the general guidelines for the establishment of IPS offices (cf. GC.3/13 and resolution GC.3/Res.19).

6. In January 1995, the Director-General established a working group on fund raising by the IPS offices. Taking part in the working group were relevant officers from Headquarters and four heads of IPS offices. The working group reviewed the achievements by the IPS offices in mobilizing resources. The measures already taken were both diverse and inventive. They included securing financial partners for promotional events, such as BORITEC and EUROPALIA (see para. 19 below), enlarging the delegates' programme by means of direct contributions from the private sector and, where appropriate, charging conference fees for participants at specialized investors' forums and financial conferences organized by UNIDO. Among the measures actively being pursued was cooperation with universities in one country to introduce studies on trends in foreign direct investment.

7 The working group, in considering the operation of IPS offices, underlined the fact that, while core funding by the host country was the basic precondition for the functioning of an IPS office, additional resource mobilization from other sources would considerably strengthen the activities of IPS offices and allow them to be implemented more effectively and speedily.

8. The working group suggested a number of possibilities for charging fees for services rendered on a cost-reimbursement basis, for example:

(a) Companies in the IPS office database that receive country and project information (e.g. bulletins) from the offices on a regular basis could be charged a nominal fee for each publication requested;

(b) A fee could be charged for specific advisory services when companies make intensive use of IPS office services for advice on such aspects as negotiations and project preparation and appraisal. A schedule of fees, based on the cost-reimbursement principle, would

be established to meet the cost of that part of the work that goes beyond the budgeted activities of the IPS offices;

(c) Electronic software could be sold, using as an example the success UNIDO has already achieved in the sale of the UNIDO computer model for feasibility analysis and reporting (COMFAR). Considerable potential exists for income from the sale of project profile screening and pre-appraisal information system (PROPSPIN) and, to a lesser extent, the databank for investment promotion programmes (DIPP). A charge could also be foreseen in the future for those participating in the World Investment Network Service (WINS).

9. While the guidelines approved by the General Conference at its third session (GC.3/Res.19) for funding arrangements for IPS offices will continue to be applied, a reference to these cost-reimbursement measures would have to be added to take account of this new aspect of resource mobilization. In order to supplement the resources of the IPS offices, it is proposed to introduce the charging of fees during 1995.

II. INVESTMENT FORUMS (INVESMARTS)
(IDB.13/Dec.8, para. (f)(ii))

10. In 1994, a number of investment forums (Invesmarts) were held at the national level. The Invesmart, part of the Investment and Technology Partnership Initiative (see para. 12 below) is an investment forum that aims primarily at initiating direct contacts between enterprises of a developing country and potential foreign partners to discuss investment projects that have been identified beforehand in a specific number of industrial subsectors. One forum was convened in April in Madagascar, and two in June and September, in Vienna and St. Petersburg, for entrepreneurs from the Russian Federation and overseas investors. The investment promotion requirements of China are of such proportions that UNIDO is organizing Invesmarts for specific regions and provinces of China. An Invesmart held for South-West China at Kunming, Yunan Province in November attracted over 100 foreign companies from industrialized countries. The participants reviewed and negotiated the 46 projects that had been screened and developed by UNIDO in the preparatory phase. The results achieved at Kunming have been such that Chinese Invesmarts are emerging as annual events, with the next planned for the final quarter of 1995 in the Yanbian Prefecture.

11. In 1995, an Invesmart was held at Zanzibar, United Republic of Tanzania, from 25 to 28 April, and another is planned for Ghana, from 27 to 30 June. Events planned for the remainder of the year include investment meetings in Vienna for the Siberian region, 3 to 5 July, and in Sri Lanka, 30 October to 1 November.

12. In keeping with the policy to introduce innovations into the programme, the first Intechmart was held at New Delhi, India, in March 1995. This new type of promotion forms part of the UNIDO Investment and Technology Partnership Initiative. At the Intechmart, potential local and foreign partners had the opportunity to discuss both joint venture investments and technology acquisitions. In preparation for the Intechmart, 90 industrial investment projects were identified by the Ministry of Industry and UNIDO, and two technology compendiums, one of foreign technology offers and the other on technology demands of Indian enterprises, were compiled.

13. Decision IDB.13/Dec.8 makes special reference to regional forums. In this connection, it is worth underlining the forum organized annually by the Secretariat of the Preferential Trade Area for Eastern and Southern African States (PTA), now the Common Market for Eastern and Southern Africa (COMESA), the Commonwealth Secretariat and UNIDO. From 26 November to 1 December 1995, the COMESA forum will be held at Kampala, Uganda, and will concentrate on investment opportunities in selected COMESA countries, namely Eritrea, Ethiopia, Kenya and Uganda. A second regional forum, planned for the countries involved in the Black Sea Economic Cooperation Council, will involve Armenia, Bulgaria, Georgia, Republic of Moldova, Romania, Russian Federation, Turkey (as the seat of the Council) and the Ukraine. The Yanbian Invesmart, to be held in October 1995, is primarily directed at Chinese projects. However, visits by foreign investors to other countries of the Tumen River area (North East Asia) are programmed within the structure of the forum. In addition, UNIDO plans to hold an investment forum in Jordan on the occasion of the Middle East Economic Conference in October 1995.

III. TECHNICAL COOPERATION PROGRAMME
(IDB.13/Dec.8, para. (f)(v))

14. As in previous years, the industrial investment technical cooperation programme concentrated on assistance to developing countries in investment infrastructure and legislation and on identifying and formulating viable investment opportunities. A project that came to fruition in 1994 in Zambia is indicative of the direction and achievements of this programme. The project started in 1991, when UNIDO provided policy advice and drafted a new investment code for Zambia. A two-year institution-building technical cooperation programme, financed by the United Nations Development Programme (UNDP), was launched

in 1992 after the publication of the code, with UNIDO as the implementing agency. The objective was to develop the Zambia Investment Centre (ZIC) as a one-stop agency mandated to attract, encourage, promote and facilitate domestic and foreign investment; it has emerged as an efficient and effective parastatal organization in Zambia. To illustrate, in 1993, ZIC issued 376 investment licences for projects with an estimated total investment of $313 million and in 1994, 302 licenses were issued for projects with a total investment of $160 million. Some 20 per cent of the projects issued with investment licences are either already operational or under construction. As an added benefit, UNIDO is already using the facilities of ZIC to train staff from other investment promotion agencies in the region.

15. The technical cooperation projects in the developing countries relating to investment promotion are combined with a training programme centring on investment project preparation. This training programme is supported by Member States and reflects changing economic conditions. The fourteenth UNIDO course on industrial project preparation, appraisal and financing, convened in September 1994 at the Warsaw (Poland) School of Economics was financed by a special-purpose contribution from the Government of Poland. As in the previous year, the course was specially designed to account for realities of countries in transition from a centrally-planned to a market economy. The 23 participants of the three-week intensive training programme represented the following countries: Armenia, Belarus, Georgia, Lithuania, Poland, Romania, Russian Federation and Ukraine. The course encompassed investment, rehabilitation and restructuring projects that were presented through case studies, computer software systems and in-company training. The same type of programme is planned for September 1995, to be financed again largely through a special-purpose contribution from Poland.

IV. COOPERATION WITH INTERNATIONAL AND FINANCIAL ORGANIZATIONS
(IDB.13/Dec.8, para. (f)(iii))

16. At the eleventh investment promotion programme meeting - in which the Heads of Service of the IPS offices participate - a review of cooperative arrangements with major international and financial organizations was undertaken. UNIDO and the IPS office network have established sound working relations with the World Bank, the European Bank for Reconstruction and Development and the Multilateral Investment Guarantee Agency, as well as the regional development banks.

17. The goal of this collaboration is to secure financing for investment projects developed through the UNIDO Investment Service. Successful examples were cited where financing has been forthcoming, e.g. through the European Bank for Reconstruction and Development. Another illustration of international financial institutions taking advantage of preparatory analysis undertaken by UNIDO is found in Asia. Through an umbrella technical cooperation project — with a contribution of $8.4 million by the Government of Japan — capital, technology and managerial know-how are being transferred from the Japanese private sector to developing country industrialists. This UNIDO project, which targets small- and medium-sized enterprises, is one of the schemes by which the Japanese Ministry of International Trade and Industry is encouraging investment and is subsidizing pre-investment work in developing countries. Since early 1990, over 30 investment studies covering a wide range of industrial sectors have been carried out under the umbrella project. Four of them (in Bangladesh, China, Philippines and Turkey) have reached the project implementation phase, and for some 13 projects negotiations have reached an advanced stage. An example of such projects is the joint venture in Bangladesh that involves a total investment of $54 million, which is being financed by the Asian Development Bank, the International Finance Corporation and by Japanese as well as local partners. The aim is to produce high-quality cloth for export and to meet the demands of the ready-made garment sector of Bangladesh.

18. The soundness of UNIDO investment proposals is also gaining recognition with national financing institutions. In Italy, for example, projects that have been advanced through the project completion facility operated by the IPS office at Milan are accepted for financing by leading financial institutions in that country.

19. UNIDO has developed cooperative programmes with a number of international organizations, such as UNDP and UNCTAD. Joint programmes are being implemented with the European Commission and the new office expected to be established in Portugal will further extend UNIDO cooperation with the European Union. This cooperation was apparent at EUROPALIA, an event held in Paris in October 1994, jointly organized by the European Commission and the UNIDO IPS offices. The aim was to promote industrial cooperation between Europe and Latin America in the agro-industry sector. A total of 10 Latin American countries and over 400 European entrepreneurs took part. The success of EUROPALIA '94 led to the holding of EUROPALIA '95 in Brazil, and it will be held again in Europe in 1996. Similarly, the Commission and the IPS

Milan office have joined hands to prepare BORITEC '95 at Milan. BORITEC is a well-known international annual event, drawing potential investors throughout Europe interested in opportunities in developing countries and economies in transition. That event offers the opportunity to some 600 entrepreneurs from developing countries and economies in transition to present their investment proposals and industrial cooperation offers to an average of 4,000 business visitors from all over Europe.

20. Plans are being made for representatives from the European Commission to meet with senior staff of the UNIDO Investment Service and Heads of IPS offices to examine the various investment promotion programmes of UNIDO and the Commission and explore areas for closer cooperation.

V. DEVELOPMENT OF THE WORLD INVESTMENT NETWORK SERVICE

(IDB.13/Dec.8, para. (f)(iv))

21. During 1994 and 1995, considerable effort has been directed towards the development of the World Investment Network Service (WINS). The Internet is also being used at Headquarters to quickly disseminate to IPS offices information on investment projects and related matters. The current phase in the development of WINS is to establish direct contacts with investment promotion agencies (as well as UNIDO Country Directors and focal points of the Industrial and Technological Information Bank) in developing countries. Through WINS, UNIDO will be in a position to transmit rapidly and efficiently detailed investment proposals from business communities in the developing world to their counterparts in industrialized countries. The conversion of the standard project profile form to an electronic format will facilitate this process.

VI. ACTION REQUIRED OF THE BOARD

22. The Board may wish to take note of the present report and endorse the proposals of the Director-General regarding the fees and the appointment of National Professional Officers. In this event, the Board may wish to recommend to the General Conference the adoption of the following decision:

"The General Conference,

"Takes note of the report by the Director-General on industrial investment promotion (IDB.14/16-GC.6/5/Add.2) and decides to amend the Guidelines for the Functioning of the Investment Promotion Service Offices, approved in General Conference resolution GC.3/Res.19, as follows:

The new text of paragraph 11 as approved in General Conference resolution GC.3/Res.19 should read:

"11. Funding arrangements for IPSOs

"IPSOs shall be financed by their host countries, who shall make voluntary contributions to UNIDO adequate to meet the costs to the Organization. The funding for all expenditures including the charge for programme support services (overhead charge) shall be provided in convertible currencies, except that in countries with non-convertible currencies, funding for expenditures of IPSOs in local currency may be provided in such local currency, while the funding for all other expenditures including the charge for programme support services (overhead charge) shall be provided in convertible currency. A procedures and operations manual for the IPSOs shall be prepared.

"When requested by an interested country referred to in paragraph 4 above, UNIDO shall try to arrange extrabudgetary financing for the instalment and operating expenses of IPS offices established in developing countries. IPSOs may also raise additional resources by charging fees for services rendered on a cost-reimbursement basis."

The new text of paragraph 12 as reflected in document GC.3/13 and approved in General Conference resolution GC.3/Res.19 should read:

"12. Personnel arrangements for IPSOs

"The Head of the IPSO will be appointed by the Director-General of UNIDO in accordance with the regulations, rules and procedures of UNIDO and after consultation with the host Government. UNIDO will operate and supervise the IPSO. The Head and the staff will either be appointed under the 200 series of the UNIDO staff rules and have the status of international project personnel or will be appointed as locally recruited National Professional Officers, to whom the local salary scales apply as established by the International Civil Service Commission (ICSC) for this particular category of professional staff."